

Department of the Navy

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Guide for Reviewing  
Cost Estimates  
Prepared Under the  
Commercial Activity Program

(Incorporates Changes Made by DOD A-76 Costing Manual- March 2001)

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17 May 2001

Naval Audit Service

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DoD A-76 Costing Manual 4100.XX-M may be obtained at:

<http://www.acq.osd.mil/installation/csp/>

Helpful exhibits include:

**IMPORTANT FACTORS AND RATES  
COSTING OF NON-APPROPRIATED FUND INSTRUMENTALITIES  
REFERENCES AND RESOURCES**

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# Introduction

**1. Purpose.** The purpose of this guide is to provide uniform procedures and guidance to Department of the Navy or contractor personnel performing independent reviews of cost estimates prepared under the Commercial Activity (CA) Program, as implemented in Office of Management and Budget (OMB) Circular A-76, its Revised Supplemental Handbook (RSH) of March 1996, and related guidance. This review guide supersedes the 13 March 2001 version and incorporates changes made by the DOD A-76 Costing Manual. DON Components shall use the DOD A-76 Costing Manual and the Windows-based Cost Comparison Software Program commonly known as win.COMPARE<sup>2</sup> in preparing the IHCE for all cost comparisons.

## 2. Background

a. Since 1955, the general policy of the Executive Branch has been to rely on private enterprise to supply its needs. OMB Circular A-76, issued in 1966, and revised in 1967, 1976, 1979, and 1983 has provided the implementing guidelines in a permanent directive. The Circular stresses reliance on the private sector for goods and services. Exceptions to this general policy include:

- Inherently Governmental activities.
  - Activities pertaining to national defense or intelligence security.
  - Patient care at Government-owned hospitals.\*
  - Activities that maintain core capability.
  - Research and development activities. \*
  - Activities for which no satisfactory commercial source is available.
  - Functions with 10 or fewer full-time equivalents (FTEs).
  - Activities where in-house performance meets or exceeds industry standards.
  - Activities where in-house performance will result in lower cost.
  - Activities with temporary authorization for in-house performance due to contractor default.
- \* Recurring and severable activities in support of these functions are subject to the general policy (including cost comparisons).

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b. Subject to certain criteria, Department of Defense (DOD) organizations are required to conduct cost comparisons to determine whether it is more cost effective to convert work to or from in-house, contract, or interservice support agreement performance. The in-house cost estimates, developed in connection with the cost comparisons, serve as a basis for pricing the Government's offer to perform commercial functions.

c. OMB first issued detailed instructions for developing cost comparisons in OMB Circular A-76 Supplement No. 1- Cost Comparison Handbook of March 1979. However, the document was criticized, in part, because it prescribed a cost comparison process that was overly detailed, complex, and cumbersome. OMB attempted to address these and other concerns in its Revised Supplemental Handbook on "Performance of Commercial Activities," issued in March 1996. The Revised Supplemental Handbook now provides a more uniform methodology for cost comparisons. CA policy implementation is provided in Part I of the Revised Supplemental Handbook, and guidance on preparing the cost comparison estimates is provided in Part II.

d. The DOD A-76 Costing Manual (Interim Guidance 4100.XX-M) provides implementing costing policy for all DOD activities. The Navy implements and manages the CA Program with OPNAV Instruction 4860.7C, updated to incorporate guidance provided in the Revised Supplemental Handbook. The Marine Corps has not made a similar update to Order 4860.3D, and therefore will manage the CA Program using OMB Circular A-76, the Revised Supplemental Handbook, and interim guidance.

e. OMB Circular A-76 and the Supplemental Handbook require an independent review of the in-house cost estimate. An Independent Review Officer (IRO), or designee should perform the independent review. While the IRO must be a Government employee, contractors may be designated to perform the independent review. The IRO or designee, hereafter generally referred to as the independent reviewer, should be a qualified person from an impartial activity that is organizationally independent of the commercial activity being studied and the organization preparing the cost comparison. Specific guidance on who may serve as the IRO or designee is provided in OPNAV Instruction 4860.7C. The Marine Corps will provide similar guidance when Order 4860.3D is updated.

f. The independent reviewer must use current guidance when reviewing CA cost estimates. In the past, Navy and Marine Corps provided updated CA guidance through messages or letters known as "program advisories." Before beginning an independent review, the independent reviewer should check the appropriate Navy <http://help.n4.hq.navy.mil> or Marine Corps <http://www.hqmc.usmc.mil/> internet site, or call the appropriate Navy or Marine Corps Review Hot Line phone numbers listed in Section A. 3.d. of this guide to ensure they have a copy of all current CA guidance.

## Section A- Introduction

### 3. Scope

- a. This review guide provides background information and procedural guidance for reviewing Navy and Marine Corps cost estimates prepared under the CA Program. The independent reviewer should perform the steps in this guide to develop an informed opinion on whether the in-house cost estimates are current, reasonable, and complete; and whether estimates conform with OMB Circular A-76, the Supplemental Handbook, and related guidance. A list of applicable Acronyms is provided in Appendix A.
- b. The independent reviewer should review documentation supporting the cost estimates, including the original solicitation and amendments, the Most Efficient Organization (MEO), the Technical Performance Plan (TPP), the Transition Plan (TP), the Quality Assurance and Surveillance Plan (QASP), the In-house Cost Estimate (IHCE), and certified position descriptions supporting the MEO. In order to remain independent, the independent reviewer must not participate in the preparation of these documents. Cost estimates should be traced to accounting records or other supporting documentation.
- c. The independent reviewer should be notified at least 30 days before the reviews are scheduled to start. However, organizations are strongly encouraged to request review assistance as soon as they have an approved PWS, a Management Plan certified as reflecting the Government's MEO, and a target date for bid opening. For Navy studies, independent review requests can be made through the CA web page.
- d. Before bid opening, the contracting officer must have in-house cost estimates certified by the IRO. Consequently, independent reviewers should immediately bring discrepancies or omissions to the attention of the organization conducting the cost comparison so it can take appropriate action. Guidance in the "GAO/AFMD-12.19.5A Financial Audit Manual, Volume 1, Title 2, Accounting", may be helpful in resolving some discrepancies. Also, the Chief of Naval Operations (CNO) and Commandant of the Marine Corps (CMC) have established Hot Lines to resolve differences in interpretation of cost comparison policy. To use the Hot Lines for problem resolution, an official from the organization conducting the cost comparison and the independent reviewer must: (1) agree on the facts involved, (2) agree to follow guidance received, (3) obtain Hot Line resolution via a conference call, and (4) document the call and the resolution obtained. The Hot Line numbers are:

	<u>COMMERCIAL</u>	<u>DSN</u>
CNO (N465)	(703) 601-1614	329-1614
CMC (LR)	(703) 614-4760/2644	224-4760/2644

## Section A- Introduction

- e. Care must be exercised to protect the confidentiality of in-house cost estimates. All CA studies are business sensitive, and in-house cost estimates are to be held in strictest confidence until after bid opening. This means keeping working papers and related documents under lock and key. If working papers or related documents must be mailed, they should be transmitted in a double envelope. The inner envelope will state who should receive it and that it should not be opened in the mailroom.

### 4. Review Objectives.

The objectives of the independent review are to ensure that:

- Data contained in the Management Plan reasonably establishes the Government's ability to perform work requirements of the PWS within the resources provided by the Most Efficient Organization, and,
- All costs entered on the Cost Comparison Form, prior to bid opening, are fully justified and calculated in accordance with procedures described in part II of the OMB A-76 Revised Supplemental Handbook and other applicable Federal regulations.

**5. Independent Review Certification.** Once the review is completed, the IRO will sign the cost comparison form, prepare a certification letter, and issue both to the organizational commander or other appropriate official. (A sample certification letter is located at Appendix B.) A copy of the form and letter should also be sent to the Chief of Naval Operations (N465) at 2000 Navy Pentagon, Washington, DC 20350-2000 or Headquarters Marine Corps (LR) at FOB 2, Navy Annex, Washington, DC 20380-1775, as appropriate. The certification letter should contain a statement of positive assurance on significant items tested and negative assurance on significant items not tested. For computer-generated data, a statement of positive or negative assurance must also be included, particularly as to the reviewer's opinion of computer-processed reports cited as source documentation.

**6. Internal Controls.** This review guide is designed to test whether cost estimates are justified and properly calculated but not the reliability of underlying internal accounting controls. The guide should provide the independent reviewer with a reasonable degree of assurance that the costs estimates were prepared in accordance with CA policy and guidance.

**7. Cost Comparison Software.** CA cost comparisons must be prepared using a Windows-based cost comparison software program called "OMB Circular A-76 Cost Comparison System," better known as win.COMPARE<sup>2</sup>. The win.COMPARE<sup>2</sup> software was developed by Mevatec, Inc. Huntsville Alabama under a contract to the U.S. Air Force Manpower and Innovation Agency, Randolph AFB, San Antonio, TX. The latest version can be downloaded from the Internet at <http://compare.mevatec.com>.

### 8. General Instructions

- a. This guide provides general instructions for evaluating CA cost estimates for Navy and Marine Corps activities. The review steps in this guide are not intended to be restrictive or serve as a substitute for initiative or judgment. The review steps present one method of

## Section A- Introduction

accomplishing the review objectives. If a particular step is not applicable or appropriate in the judgment of the independent reviewer, it should be annotated next to the review step or be cross-referenced to a working paper that adequately supports omission of the step.

b. Section B of this guide provides guidance for a preliminary review to determine whether the management plan and the cost comparison are ready for review.

c. Section C is a document review intended to determine whether the management plan and cost comparison documentation is complete and generally acceptable.

d. Section D is the in-depth review of cost estimates and supporting documentation.

d. Sections B, C and D provide space for each review step to be answered by the independent reviewer/contractor and the IRO/Naval Audit Service representative. When the review step cannot be fully answered in the space provided, the guide should be cross-referenced to supporting working papers that fully document the results. While it may be possible to answer some steps with simply a yes or no response, most review responses should provide sufficient detail and support to allow a third party to understand the depth of review conducted and the results. Appendix C provides a suggested format for tracking the identification and resolution of issues or concerns raised during the independent review. Appendix D provides a Checklist for In-House Cost Estimates Data Collection.

**9. Working Papers.** Working papers are essential records that should be prepared and maintained to support the work performed, descriptions of records examined, and any significant conclusions and judgments. Working papers should contain descriptions of the review objectives, scope, and any sampling methodology used.

**10. References.** The pertinent references follow. The (UR) annotation indicates the reference is under revision.

- OMB Circular A-76, “Performance of Commercial Activities,” August 1983
- OMB Circular A-76, Revised Supplemental Handbook – “Performance of Commercial Activities,” March 1996
- OMB Circular A-94, “Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs,” October 1992
- OMB Circular A-76 Cost Comparison System (win.COMPARE<sup>2</sup>) Manual
- 5 CFR (Code of Federal Regulations) Part 550 - Pay Administration (General)
- Federal Acquisition Regulation
- Defense Federal Acquisition Regulation Supplement

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- Navy Acquisition Procedures Supplement or other agency specific guidance
- Federal Accounting Standards, particularly the Statement of Recommended Accounting Standards Number 4
- DOD Directive 4100.15, “Commercial Activities Program,” March 1989 (UR)
- DOD Instruction 4000.19, “Interservice and Intragovernmental Support,” August 1995
- DOD 4100.XX-M “A-76 Costing Manual,” March 2001
- Secretary of the Navy Instruction 4860.44F, “Commercial Activities,” September 1989 (UR)
- OPNAV Instruction 4860.7C, “Navy Commercial Activities Program,” June 1999
- Marine Corps Order 4860.3D, “Commercial Activities Program,” January 1992 (UR)
- “Post MEO Review Guide (Draft),” February 2000
- Strategic Sourcing Program Advisories
- OPM General Schedule/Wage Grade Locality Pay Tables
- Succeeding at Competition: The US Navy Guide to Conducting Commercial Activities
- DON Civilian Human Resources Competitive Sourcing Guide

## Section B-Preliminary Review

# Section B Preliminary Review

**1. Background.** The CA preliminary review is intended to determine whether the cost comparison is ready for review. Specifically, the purpose of this section is to determine whether: (1) Congress was informed of study plans; appropriate approvals, if applicable, were obtained; and necessary documents are complete and appropriately signed.

**2. Examples of Potential Problems.** Some of the more common problems associated with the preliminary review are provided as examples below.

- a. Notification to Congress not provided.
- b. Approval for deviation from announced function(s) or FTE not available.
- c. Documents not complete.
- d. Cost Comparison Form missing Commanding Officer's MEO certification (line 19), or failing to identify who the IHCE was prepared by (a printed name and title should appear beneath each signature).

### **3. Objectives**

- a. Identify if the study is ready for independent review.
- b. Identify required management action when study is not ready for independent review.

**4. Review Steps.** The following preliminary test checks must be made before further review work is undertaken. Any unsatisfactory condition, which may result in a significant or material delay, is sufficient reason to suspend the review of documentation and cost estimates.

**Section B-Preliminary Review**

<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p><b><u>Preliminary Review</u></b></p> <p>(1) Determine that required documents are available and ready for review. The command must provide the independent reviewer with the following 7 workdays prior to commencement of the independent review.</p> <p>(a) CNO announcement to Congress of functions and positions. Verify that the proposed CA action (for more than 50 civilian employees per Title 10, U.S. Code, Section 2461) was announced to Congress by CNO or CMC.</p>			
<p>(b) N465 approval to exclude functions from study (if applicable)</p>			
<p>(c) Commander's approval to make small changes in the number of positions studied (if applicable)</p>			

**Section B-Preliminary Review**

<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>(d) A copy of the solicitation as posted for bidders, including Section B through M and all amendments.</p>			
<p>(e) Cost Comparison Form certified by the Activity Commander or Regional Commander (if studies cross geographical or claimant boundaries) on Line 19 (per OPNAVINST 4860.7C) as reflecting the Government's MEO and conforming to CA Program guidance (name/title printed legibly under the signature).</p>			
<p>(f) Complete Management Plan including the Most Efficient Organization, Technical Performance Plan and Transition Plan.</p>			

**Section B-Preliminary Review**

<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
(g) Complete print out of the win.COMPARE <sup>2</sup> In House Cost Estimate, including cost records, worksheets, study tables and master tables.			
(h) Certified position descriptions for all MEO positions.			
(i) Quality Assurance Surveillance Plan, and Quality Control Plan if a Quality Control Plan is required in the PWS.			

**Guide for Reviewing Cost Estimates  
Section C-Document Review**

## **Section C Document Review**

**1. Background.** The CA document review is intended to determine whether the cost comparison documentation is complete, generally acceptable and provides an “audit trail” for detailed cost review.

**2. Examples of Potential Problems.** Some of the more common problems associated with the document review are provided as examples below.

- a. The MEO was not consistent or compatible with the PWS, or there was inadequate documentation that the MEO could accomplish work required in the PWS.
- b. The Quality Assurance Surveillance Plan (QASP) fails to adequately identify the method and level of surveillance.
- c. Sufficient workload, budget and/or cost data is not available.

### **3. Objectives**

- a. Determine whether the PWS defines workload adequately and provides a reasonable basis for comparing in-house, contract and Inter-service Support Agreement (ISSA) cost.
- a. Determine whether the QASP adequately documents how evaluations are to be accomplished, the frequency of evaluations, and other information relative to the surveillance.
- b. Determine whether the organization adequately documented that the certified MEO was developed as the result of a thorough management study and that the organization is able to perform all the requirements of the PWS.

**4. Review Steps.** The following documentation test checks must be made. The purpose of the document review is to identify problems that may require command action before beginning the detailed review of cost estimates.

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Section C: Document Review**

<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p><b><u>Document Review</u></b></p> <p>(1) Detect significant deviations from OMB Circular A-76 and related guidance.</p>			
<p>(a) Confirm that the cost analysis has been prepared for a 5-year performance period excluding the phase-in period where applicable. Prior approval by CNO or CMC is required for any deviations.</p>			
<p>(b) Analyze historical funding information for the function/business unit under study to determine whether there are any significant changes in workload or mission that should be reflected in PWS.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>(c) Determine if budget projections contain sufficient funds to implement the MEO for the period of contract performance.</p>			
<p>(d) Compare the most current fiscal year's historical cost reports by expense element to identify potential omissions or deviations of organizational elements supporting the CA.</p>			
<p>(e) Download the most recent cost factors from <a href="http://www.dtic.mil/comptroller">http://www.dtic.mil/comptroller</a>, <a href="http://emissary.acq.osd.mil/inst/share.nsf">http://emissary.acq.osd.mil/inst/share.nsf</a> and <a href="http://help.n4.hq.navy.mil">http://help.n4.hq.navy.mil</a> and compare them to the cost factors used in the win.COMPARE<sup>2</sup> model study tables.</p>			

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(f) Insure that the most recent version of the win.COMPARE <sup>2</sup> model is being used.			
(g) Verify that all assumptions, data, sources, and methods of cost accumulation are documented and available for independent review.  (DON Components are encouraged to review the checklist in Appendix 4 of the A-76 Costing Manual to verify that appropriate cost data items have been collected.)			

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<p>(h) Determine whether the documentation supports the cost study without further explanation. Confirm that CNO or CMC approval has been obtained for any deviations from CA guidance. <u>NOTE:</u> documentation should support the cost study without further explanation. (OMB Circular A-76 and DOD A-76 Costing Manual CO.21.2)</p>			
<p>(i) Ensure that the same Consultant individual did not write the PWS and also prepare the IHCE.</p>			
<p><b><u>Solicitation</u></b></p> <p>(2) Confirm that the solicitation has been publicly issued. If not, obtain written certification from the Contracting Officer that the PWS is a contractible document.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
(3) Determine whether the solicitation is performance-oriented, specifying what outputs or measures are desired and limiting directions as to how the results are achieved.			
(4) Ensure the solicitation does not limit service options, arbitrarily increasing risk, reducing competition.			
(5) Examine GFF, GFM, and GFE to determine “wash costs”.			

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<p>(6) Determine whether the work unit definitions in the PWS provide a reasonable basis for preparing the in-house estimate and bid. Do workload figures agree with historical workloads or do they represent realistic projections of future workloads? The PWS <u>should not</u> address workloads and missions not currently being accomplished unless they will be accomplished and funded in the future under an in-house method of operation.</p>			

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<p>(7) If the solicitation has a transition/phase-in period, ensure that the costs associated with converting from the current organization to the selected performance provider (MEO or Contract/ISSA) are reflected in a period prior to MEO or Contract/ISSA start date. (per DOD 4100.XX-M pg 100)</p> <p>Note: If there are no in-house transition costs, “zero costs” should be stated.</p>			

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<p>(8) Determine whether the PWS provides performance standards that conform with the historical performance or with <u>formally approved</u> changes in the method of operation. The standards should provide for a comparable level of performance under in-house, contractor, or ISSA operation, and should be consistent with proposed in-house staffing, resources, and the quality assurance plan. <u>NOTE:</u> If the PWS requires the contractor or ISSA to provide equipment or facilities, ensure that documentation shows this is the most cost effective alternative.</p>			
<p>(9) Ensure that the PWS establishes measurable performance standards.</p>			
<p>(10) Ensure that the Performance Requirements Summary identifies reasonable acceptable quality levels that can be met by the Government, contractor or ISSA.</p>			

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(11) Ensure that the IHCE performance periods agree with the performance periods in Section B of the solicitation. If the performance periods are different, the Government and offerors will <u>not</u> be costing the same work.			
(12) Ensure that the PWS clearly identifies any Government provided equipment, vehicles, material, or facilities and any related maintenance responsibilities.			
(13) Ensure the MEO include a plan for disposal of any excess equipment, vehicles, materials & supplies, and facilities that will not be utilized by the MEO.			

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<p><b><u>Quality Assurance Surveillance Plan (QASP)</u></b></p> <p>(14) Evaluate the adequacy of the QASP by determining whether performance indicators, primary method of surveillance, level of surveillance, acceptable quality levels, and performance criteria have been established.</p>			
<p><b><u>Management Plan</u></b></p> <p>(15) Review Line 19 of the IHCE to verify that the Activity Commander or Regional Commander (if studies cross geographical or claimant boundaries per OPNAVINST 4860.7C) certified the in-house cost estimate based on the most efficient and cost-effective organization.</p>			
<p>(16) Review and determine whether the Management Plan:</p> <p>(a) Used the PWS work requirements as the basis,</p>			

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(b) Identified total resources required (i.e., personnel, time, dollars, supplies, equipment, and energy) to accomplish the PWS work,			
(c) Discussed the disposition of capital equipment, capital facilities and minor items in the event the function is converted, and			
(d) Documented the development and extent of the analytical process to record the new Government organization.			
(17) If the cost analysis is based on a larger organization, request documentation that the major claimant has approved additional resources required (billets, capital expenditures, and funding necessary to effect civilian conversion of military positions if the function remains in-house).			

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<p>(18) Analyze organizational charts, the Management Plan, the MEO, and the solicitation to ensure that the CA workload can be identified with an existing or proposed organization. If the CA is not organizationally separate, but is identified with a type of work, it must be (a) <u>separable</u> from other functions so as to be suitable for performance by in-house, contract or ISSA; and (b) a <u>regularly needed</u> activity, not a one-time need of short duration.</p>			
<p>(19) Obtain an analysis comparing announced positions to the MEO with explanations for all differences. (crosswalk is desirable but not mandatory)</p>			

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<p><b><u>MEO</u></b></p> <p>(20) The MEO and the PWS must be consistent and compatible. Ensure the Management Plan clearly shows that:</p> <p style="padding-left: 40px;">(a) The MEO can accomplish the work required in the PWS.</p>			
<p style="padding-left: 40px;">(b) The MEO considers all direct in-house labor, supervision and MEO subcontracts necessary to accomplish the requirements in the PWS.</p>			
<p style="padding-left: 40px;">(c) The FTE in the MEO and the IHCE are identical.</p>			

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(21) Evaluate the reasonableness of all assumptions made in determination of the MEO including: appropriate mix of pay grades; best mix of work schedules to accomplish the workload; utilization of full-time, part-time, and intermittent staffing; and use of overtime for unscheduled, seasonal, or peak workloads.			
(22) Ensure that positions and grade levels in the MEO are supported by certified position descriptions.			
(23) Verify that military positions in the function/business unit under study were properly converted to civilian positions for the purpose of the cost comparison. Activities and claimants must coordinate billet deletions and obtain new funding for civilian employees under the MEO or for contractor operations.			

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(24) Obtain certification from the CO that the MEO does not conflict with existing labor agreements.			
(25) Request copies of any legal opinions or legal officer advisory messages, which may have an impact on implementation of the MEO.			
<p><b><u>Transition Plan</u></b></p> <p>(26) Review the TP to ensure it provides a detailed transition from the current organizational structure to the MEO or Contract/ISSA.</p>			

**Guide for Reviewing Cost Estimates  
Section C: Document Review**

<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>(27) Obtain verification from the servicing HRO that they can reduce the workforce in the time provided in the TP to accomplish both scenarios: a contractor win and RIF or a MEO win and a RIF. Specifically, verify the organization's ability to meet the schedule in the TP.</p>			
<p><b><u>Technical Performance Plan</u></b></p> <p>(28) Review the TPP to ensure that work requirements and staffing are consistent with the MEO and PWS.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p><b><u>Standard Factors</u></b></p> <p>(29) Review the study tables in win.COMPARE<sup>2</sup> to make sure they reflect the current General Schedule locality pay tables, the current Appropriated Fund Wage Area definitions, and Military Composite Rates.</p> <p>(a) Ensure that the base year date is not earlier than the effective date of the latest pay rate, (GS or WG) to avoid double inflating the civilian pay.</p>			
<p>(b) Ensure all costs developed in other lines are inflated to the base year properly prior to entering into win.COMPARE<sup>2</sup>.</p>			
<p>(c) Make sure that Military Composite Rates have been edited to reflect the Navy or Marine Corps rates.</p>			

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<p>(30) Ensure that all factors have been correctly input in the win.COMPARE<sup>2</sup> program by reviewing the study tables against the latest information from the 3SO and HQMC web sites.</p> <p>Factors for fuels, transportation, and packing and crating are found on <a href="http://www.dtic.mil/comptroller">www.dtic.mil/comptroller</a> and <a href="http://emissary.acq.osd.mil/inst/share.nsf">http://emissary.acq.osd.mil/inst/share.nsf</a></p>			

**Guide for Reviewing Cost Estimates  
Section D- Cost Comparison Review**

## **Section D Cost Comparison Review**

- 1. Background.** In-house cost estimates within the Department of Navy will be developed using win.COMPARE<sup>2</sup>. The software is designed to assist in developing, documenting, and comparing the relative cost of in-house, contractor, or ISSA performance. The software program simplifies the development and review of performance costs, but should not be used in isolation of existing CA Program guidance.
- 2. Examples of Potential Problems.** Reviewers should be alert at all times for costs that have been omitted, overstated, or understated. There may be many reasons why the cost estimates are not correct. Some of the more common reasons are included in the examples below.
  - a. Data entry errors occurred when entering information into win.COMPARE<sup>2</sup>.
  - b. Justifications for decisions were not adequately documented.
  - c. Supporting documentation was not being maintained.
  - d. Changes in scope in out-years were not reflected in the cost comparison.
  - e. Common costs that would occur under in-house, contract or ISSA performance were included in the in-house cost estimate; for example, costs for materials or supplies to be provided to the contractor or ISSA were included in the in-house estimate.
  - f. Inflation factors and depreciation/insurance rates were not properly applied to other specifically attributable costs associated with the function/business unit under study.
  - g. Not all minor property items were identified and costed.
  - h. Undocumented and unjustified costs were included in the cost estimate.

**Guide for Reviewing Cost Estimates**  
**Section D- Cost Comparison Review**

- i. A transition plan was costed but not discussed in the PWS, or one-time conversion costs were not allocated over at least three performance periods.
- j. Gain on disposal or transfer of assets was omitted from the in-house estimate.
- k. The supporting documentation has not been developed so that diverse audiences that include potential appellants, the AAP Authority, lawyers, judges, auditors or individuals certifying the study can understand it. To understand the rationale and calculations of the IHCE, these individuals rely solely upon these written records (i.e., supporting documentation) and they must stand alone without further explanation.

**3. Review Objectives.** The review objectives are to:

- a. Evaluate the reasonableness of assumptions used in making estimates, and the adequacy of supporting documentation.
- b. Determine whether the in-house cost estimates are compatible with the workload prescribed in the PWS and with staffing identified in the certified MEO.
- c. Evaluate supporting documentation to ensure that in-house cost estimates are current, complete, accurate, reasonable, and in compliance with OMB Circular A-76 and related guidance.

**4. Review Steps.** The reference to line numbers below, correspond to the Supplemental Handbook and its Generic Cost Comparison Form. However, some of the line numbers in the win.COMPARE<sup>2</sup> software used to develop the cost estimates will be different and a cross reference is provided. The following review steps should be followed.

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Section D- Cost Comparison Review**

Guide Review Step	Comp Date	Independent Reviewer/Contractor Comments (W/P Ref)	IRO/NAVAUDSVC Comments (W/P Ref)
<p><b>Line 1: Personnel Costs.</b> This line includes all direct and supervisory labor costs for accomplishing the workload requirements specified in the PWS. These costs include salaries, wages, fringe benefits, and other entitlements.</p>			
<p>(1) Ensure that all direct labor and supervision costs necessary to accomplish the requirements of the PWS are included. If in-house cost estimates include a mix of in-house labor and existing contract support, ensure that labor costs are included for contract administration and inspections. (Free labor is not allowed, i.e., volunteer, prisoner, active duty military)</p>			
<p>(2) Ensure that personnel costs identified include all salaries, wages, fringe benefits, and other entitlements, such as uniform allowances and overtime for the staffing levels and wage/grade classification identified in the MEO. (Premium pays and other entitlements must be fully supported and compliant with current collective bargaining agreements.)</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor C Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
(3) Review historical pay records for other added pay and other entitlements. Compare to Line 1 costs and ensure costs are documented and reasonable.			
(4) Ensure that a prorated share of the costs included for direct and indirect managers and supervisors above the first line of supervision who are essential to the performance of the CA being competed are included in line 1.			
(5) Ensure that the number of FTEs needed to perform the requirement is based on 1,776 available hours for full or part-time employees and 2,007 available hours for intermittent employees. Also, ensure that annual pay is based on 2,087 hours.			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>(6) Verify that each grade level required be costed at step 5 for GS employees and step 4 for WG employees. NAF and Demonstration project personnel should be costed at the mid-grade, mid-band and mid-step level.</p>			
<p>(7) Ensure that the fringe benefit rates used are in accordance with directives. Verify that the Federal Insurance Contribution Act (FICA) fringe benefit rate is applied only to salaries within the <u>current</u> annual salary limitation for FICA tax.</p>			

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<p>(8) Ensure an audit trail for all costs is established from the source documents, such as staffing plans, historical cost data, and budget and accounting records, into winCOMPARE2.</p> <p>(DON components are encouraged to utilize the Figure C1.F1 worksheet in the DOD A-76 Costing Manual pg. 25, as the recommended tool for this cost development).</p>			
<p>(9) Verify that all personnel costs have been escalated through the first period of performance. For out years, inflate only those personnel costs that are not subject to the Service Contract Act (Title 41, U.S. Code, Section 351-357) or the Davis-Bacon Act (Title 41, U.S. Code, Section 276a-276a-7).</p>			
<p>(10) Ensure DOL wage determination is included in the supporting documentation for the IHCE.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor C Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>(11) Check that the proper entries were made for Expansion/MEO Sub-Contract mix, because this influences the Minimum Conversion Differential. (See DOD A-76 Costing Manual Para. C1.2.18)</p>			
<p>(12) Verify that Contract Administration for the MEO Subcontracts was computed utilizing the required table C8.F1 Pg 77 of the A-76 Costing Manual. Ensure that any deviations and are fully supported.</p>			
<p>(13) Ensure that the most current salary tables are used.</p> <p>Note the IHCE must be updated each time OPM directs salary/wage rate adjustments, DOL directs contract wage rate adjustments in accordance with SCA or OMB directs inflation rate changes.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor C Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
(14) Ensure that FTE requirements are rounded to the third decimal place.  (DoD A-76 Costing Manual C0.5)			

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Guide Review Step	Comp Date	Independent Reviewer/Contractor Comments (W/P Ref)	IRO/NAVAUDSVC Comments (W/P Ref)
<p><b>Line 2: Material &amp; Supply Costs.</b> This line includes all material and supply costs, such as raw materials, parts, subassemblies, components, and office supplies, required by the function/business unit under study. These costs should be based on the most current historical full fiscal year usage or documented deviations from historical usage. Inflation must be taken into consideration.</p>			
<p>(1) Review the solicitation documents to insure that all materials, which are not Government Furnished Material (GFM) or Government Furnished Equipment (GFE), are costed. <u>NOTE:</u> The PWS must clearly identify who is responsible for providing materials, supplies and equipment.</p>			
<p>(2) Ensure that material costed in the IHCE is the same as what was required in the PWS. If a level of operation is described, ensure that material and supply usage can be reasonably determined.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
(3) Review supporting documentation and determine whether historical usage data was derived from standard reports. If the supporting documentation includes material applicable and not applicable to the function/business unit under study, determine the reasonableness of the allocation.			
(4) Determine the basis used to estimate material quantities, e.g., historical data, statistical sample, or engineering performance standards. Determine the reasonableness of estimates.			
(5) Verify that inflation was calculated for the first performance period. If the PWS calls for economic adjustments of material costs in out years, inflation will <u>not</u> be figured for the out years.			
(6) If the FTE's will change over the period of performance, determine that any impact on material usage was appropriately considered.			

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Guide Review Step	Comp Date	Independent Reviewer/Contractor Comments (W/P Ref)	IRO/NAVAUDSVC Comments (W/P Ref)
<p><b>Line 3: Other Specifically Attributable Costs.</b> This line includes all costs, except personnel and material related costs, which are 100 percent attributable to the function/business unit under study. Common costs that would be the same, whether the function is performed in-house or by contractor/ISSA, should be identified and excluded from the cost comparison.</p>			

<p><u>Depreciation.</u> Depreciation represents the cost of ownership and the consumption of an asset's useful life. Depreciation costs should be calculated by deducting the residual value of the asset from the sum of acquisition cost and any capital improvements and then dividing by the expected useful life of the asset.</p>			
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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>1. <u>Capital Facility Assets</u> Ensure that the capital facility assets cost records are properly filled out in win.COMPARE<sup>2</sup>. Check source documents for facility code, construction date and acquisition cost. Deviations from the use of win.COMPARE<sup>2</sup> study table 12 must be justified. Estimates of expected useful life not developed by the win.COMPARE<sup>2</sup> program must be justified.</p>			
<p>2. Ensure that depreciation costs have not been inflated in any performance period.</p>			

**Guide for Reviewing Cost Estimates  
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<p>3. <u>Cost of Capital</u>. Cost of capital is a charge on the Government's investment in capital assets necessary to provide the product or service.</p> <p>(a) Ensure that the annual cost of capital is added to the depreciation cost of any asset costing more than \$5,000 acquired by the Government if the asset is:</p> <ul style="list-style-type: none"> <li>▪ Not provided for contractor/ISSA use.</li> <li>▪ Purchased less than 2 years prior to the cost comparison date.</li> <li>▪ Scheduled for purchase within the performance period.</li> </ul>			
<p>(b) Verify that the cost of capital rate in study table 8 is current.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
4. <u>Minor Items</u> . Verify that minor items not immediately consumed and not provided to the contractor /ISSA are included. Confirm that 10 percent of the total estimated replacement cost is allocated to each performance period			
5. Ensure that IMPAC purchase card costs have been captured in the IHCE on line 3. Also consider Federal income tax implications resulting from purchased services.			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>6. <u>Rent</u>. Rent is the cost incurred for the use of non-Government assets, including equipment, buildings, and land.</p> <p>(a) Verify that all computed rental costs, on an allocated basis, are associated with the MEO. Government furnished rental costs that apply to in-house and contractor/ISSA performance should be excluded.</p>			
<p>7. <u>Maintenance &amp; Repair</u>. Ensure that all assets required to comply with the solicitation, but not furnished to the contractor/ISSA, are costed. Maintenance and repair costs for assets covered by rental fees should not be costed.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>8. <u>Utilities</u>. This category includes charges for fuel, steam, electricity, telephone (including long distance charges), water, and sewage services <u>not</u> provided to the contractor/ISSA but required for in-house performance.</p> <p>(a) Determine the reasonableness of the basis, either metered or allocated, used to determine utility costs.</p>			
<p>9. <u>Insurance</u>. To the extent assets are not provided to the contractor/ISSA or that property losses may be assessed against a contractor/ISSA using Government space, facilities, or equipment, in-house casualty premiums must be computed. Ensure that study table 8 has the standard factor for casualty insurance of .005 and the standard factor of personnel liability of .007.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p>10. <u>Travel</u>. This covers the expected cost of in-house travel that would occur with Government performance.</p> <p>(a) Ensure that costs identified in this category were based on source documents.</p>			
<p>11. <u>MEO Subcontract Costs</u>. This category covers work currently performed by contract that is included in the solicitation.</p> <p>(a) Verify that labor related costs for the Government's administration and inspection of the continued support contracts are included in Line 1.</p>			
<p>(b) Ensure that the MEO is not displacing FTE by subcontracting new work or additional work not currently performed by contract.</p>			

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(c) Verify that the cost of the maintenance and service support contracts (including GFM/GFE and facilities provided to the contractor/ISSA) are included in Line 3. (i.e., for equipment, vehicles, and facilities).			
(d) Make sure that the subcontract costs are escalated to the performance period and are adjusted (down) to offset for Federal income tax revenue to the Government.			

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<p>12. <u>Other Costs</u>. This is a general category for specifically attributable costs that do not properly fit into one of the other cost elements, but would change in event of contract/ISSA performance. Examples of other costs are: transportation costs, royalties, random drug testing, physical examinations, licenses and certifications, or special training, that are required by service provided in the PWS. Ensure that any costs included here are appropriate and supported.</p>			

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Guide Review Step	Comp Date	Independent Reviewer/Contractor Comments (W/P Ref)	IRO/NAVAUDSVC Comments (W/P Ref)
<p><b>Line 4: Overhead Costs.</b> Operations overhead is defined as those costs that are not 100 percent attributable to the function/business unit under study, but are generally associated with the recurring management or support of the function/business unit. General and administrative overhead includes salaries, equipment, space, and other activities related to headquarters management, accounting, personnel, legal support, data processing management and similar common services performed outside the function/business unit under study but in support of the function/business unit.</p>			
(1) Verify that overhead for each year of the performance period is calculated by multiplying Line 1, including fringe benefits, by 0.12 (12 percent).			
<p><b>Line 5: Additional Costs</b> This cost element includes costs not otherwise properly classified on Lines 1 through 4. Examples include office and plant rearrangements, transport, employee recruitment, training, and relocation expenses.</p>			
(1) Verify that costs identified on this line are supported by a definition of the type of cost, a justification for its inclusion, and an explanation of the underlying assumptions and methods of computation.			
<p><b>Line 6: Total In-house Costs</b></p>			
(1) Verify that the total amount was correctly added. (win.COMPARE <sup>2</sup> software will sum the amounts correctly and list the total on <u>Line 6</u> ).			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p><b>Line 7: Contract/ISSA Price</b> No review step required.</p> <p>The Industry Tax code is a contracting officer responsibility and is selected from the Tax Table. Accurate selection may require consultation with functional managers and legal counsel. (DoD A-76 Costing Manual C7.2.1)</p>			
<p><b>Line 8: Contract Administration Costs</b></p> <p>(1) Verify that the costs identified on Line 8 do <u>not</u> include the cost of inspection and other administrative requirements that would be common to in-house, contract or ISSA performance.</p>			
<p>(2) Ensure that contract administration costs are limited to the personnel FTEs and grade levels identified in Figure C8.F1 of the DoD A-76 Costing Manual.</p>			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
(3) Ensure other costs, such as vehicles, office equipment, computer systems facilities and utilities are not added to Line 8.			
<b>Line 9: Additional Costs</b>  (1) Review the supporting documentation for the additional costs. The support should describe the nature of the cost and why the cost will not be incurred when the function is performed in-house.			
(2) Review the supporting documentation and determine whether it provides a definition of the cost, justification for inclusion, method of computation, and a detailed listing of the cost components (if applicable).			
(3) Ensure that standby costs of equipment and facilities being kept solely to maintain performance capability in case of contractor/ISSA failure are not charged to the contractor/ISSA cost.			

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<b>Guide Review Step</b>	<b>Comp Date</b>	<b>Independent Reviewer/Contractor Comments (W/P Ref)</b>	<b>IRO/NAVAUDSVC Comments (W/P Ref)</b>
<p><b>Line 10: One-time Conversion Costs</b>            (1) Ensure there are no material or “joint inventory” costs included on line 10.</p> <p>Note: See DOD A-76 Cost Manual C10.3</p>			
<p>(2) Ensure labor-related costs in the form of severance pay is included at a rate of 4% (OMB mandated factor) of the annual basic pay of <u>all</u> Government civilian positions included in Line 1 of the CCF in the first full performance period. This factor includes all one-time conversion costs associated with a RIF (TCC, retraining, and relocation)</p> <p>Note: If the first performance period is less than twelve months in length, basic pay shall be annualized.</p>			

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(3) Validate that other one-time conversion costs were justified and approved at a level higher within their chain of command, than the location where the cost comparison is being performed.			
(a) If security clearances are included, ensure that the solicitation clearly states the requirement for all security clearances, e.g., work load, number of positions, facility access requirements, level of security clearance, etc.			

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(b) Ensure that costs for Security Clearances were developed based on the current 3SO Strategic Sourcing Advisory.			
<p><b>Line 11: Gain from Disposal/Transfer of Assets</b></p> <p>(1) The Government should not dispose of or transfer MEO assets unless there is an economic advantage to the taxpayer. For disposal data use Appendix 8 of the DOD A-76 Costing Manual.</p> <p>Note: Insure there is documentation indicating management’s decision to dispose of or transfer the asset.</p>			
(2) Review gains identified. A net gain to the Government as a result of conversion to contract/ISSA should equal the net book value of the asset less any cost incurred to remove the asset.			

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<p><b>Line 12: Federal Income Tax</b></p> <p>(Contracting Officers Responsibility, no action necessary by IRO)</p>			
<p><b>Line 13: Total Contract/ISSA</b></p> <p>(1) Total of pricing data provided at bid opening plus adjustments. No review steps required.</p>			
<p><b>Line 14: Conversion Differential</b></p> <p>(1) Verify that a minimum cost differential of the lesser of 10 percent of Line 1 (personnel costs) or \$10 million over the performance period has been identified.</p> <p>Note: For studies involving expansion of 30% or more in operating costs, see DOD A-76 Costing Manual Para. C14.2.3 for computing the conversion differential.</p>			

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<b>Final Certification Steps:</b>			
(1) Determine that all changes recommended by the independent reviewer have been made to the government's cost estimate or are otherwise adequately resolved.		N/A	
(2) Verify that the PWS reviewed is the same as that which appears in the contract solicitation.		N/A	
(3) Sign the Cost Comparison Form.		N/A	
(4) Prepare and send a certification letter with the signed Cost Comparison Form as an enclosure.		N/A	

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**Appendix A**  
**List of Acronyms**

**ACRONYMS**

<b>AAP</b>	Administrative Appeal Process
<b>ADP</b>	Automated Data Processing
<b>APF</b>	Appropriated Fund
<b>CA</b>	Commercial Activities
<b>CAMIS</b>	Commercial Activities Management Information System
<b>CARE</b>	Civilian Assistance and Reemployment
<b>CCF</b>	Cost Comparison Form
<b>CFR</b>	Code of Federal Regulations
<b>CLIN</b>	Contract Line Item Number
<b>CME</b>	Contract Man-year Equivalent
<b>COLA</b>	Cost of Living Adjustment
<b>COR</b>	Contracting Officer's Representative
<b>COTR</b>	Contracting Officer's (Technical) Representative
<b>CPMS</b>	Civilian Personnel Management Service
<b>DBA</b>	Davis-Bacon Act
<b>DFARS</b>	Defense Federal Acquisition Regulation Supplement
<b>DLA</b>	Defense Logistics Agency

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<b>DoD</b>	Department of Defense
<b>DoDD</b>	Department of Defense Directive
<b>DoDHRA</b>	Department of Defense Human Resource Activity
<b>DoDI</b>	Department of Defense Instruction
<b>DOL</b>	Department of Labor
<b>DUSD(I)</b>	Deputy Under Secretary of Defense (Installations)
<b>EDP</b>	Environmental Differential Pay
<b>EPA</b>	Economic Price Adjustment
<b>FAR</b>	Federal Acquisition Regulation
<b>FICA</b>	Federal Insurance Contributions Act
<b>FSC</b>	Federal Supply Code
<b>FTE</b>	Full-time Equivalent
<b>FWS</b>	Federal Wage System
<b>FY</b>	Fiscal Year
<b>GFE</b>	Government-Furnished Equipment
<b>GFF</b>	Government-Furnished Facilities
<b>GFM</b>	Government-Furnished Materials
<b>GFP</b>	Government-Furnished Property
<b>GS</b>	General Schedule
<b>GSA</b>	General Services Administration
<b>IHCE</b>	In-house Cost Estimate

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<b>IFB</b>	Invitation for Bid
<b>IGE</b>	Independent Government Estimate
<b>IRO</b>	Independent Review Officer
<b>ISSA</b>	Inter-Service Support Agreement
<b>MEO</b>	Most Efficient Organization
<b>NAF</b>	Non-Appropriated Fund
<b>NAFI</b>	Non-Appropriated Fund Instrumentality
<b>NIB</b>	National Industries for the Blind
<b>NISH</b>	National Industries for the Severely Handicapped
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management
<b>OSD</b>	Office of the Secretary of Defense
<b>OSHA</b>	Occupation Safety and Health Administration
<b>OUSD(AT&amp;L)</b>	Office of the Under Secretary of Defense (Acquisition, Technology and Logistics)
<b>PCH</b>	Packing, Crating and Handling
<b>PWS</b>	Performance Work Statement
<b>QAE</b>	Quality Assurance Evaluator
<b>QASP</b>	Quality Assurance Evaluation Plan
<b>QSI</b>	Quality Step Increase

**Guide for Reviewing Cost Estimates  
Appendices**

<b>RFP</b>	Request For Proposal
<b>RSH</b>	Revised Supplemental Handbook (to OMB Circular A-76)
<b>SBA</b>	Small Business Administration
<b>SCA</b>	Service Contract Act
<b>SSP</b>	Sustained Superior Performance
<b>TP</b>	Transition Plan
<b>TPP</b>	Technical Performance Plan
<b>USA</b>	United States Army
<b>USAF</b>	United States Air Force
<b>USMC</b>	United States Marine Corps
<b>USN</b>	United States Navy
<b>WD</b>	Wage Director
<b>WG</b>	Wage Grade
<b>WL</b>	Wage Leader
<b>WS</b>	Wage Supervisor

# Appendix B

## Sample Certification Letter

From: (Independent Review Officer)

To: Commanding Officer, (Activity Name)

Subj: COMMERCIAL ACTIVITY COST COMPARISON REVIEW OF (FUNCTION) AT (LOCATION) (AUDIT NUMBER)

Ref: (a) (Activity Request Letter)  
(b) (CNO or CMC Guidance)

Encl: (1) (Certified Cost Comparison Form)

1. We have completed the review requested in reference (a). The objectives of the independent review are to ensure that: (1) data contained in the Management Plan reasonably establishes the Government's ability to perform work requirements of the PWS within the resources provided by the Most Efficient Organization; and, (2) all costs entered on the Cost Comparison Form, prior to bid opening, are fully justified and calculated in accordance with procedures described in part II of the OMB A-76 Revised Supplemental Handbook, other applicable Federal regulations and reference (b). Our initial review began on (date) and was completed on (date).

2. Our review was based on work performed by a contractor who functioned as the independent reviewer. We performed tests of the contractor's work for completeness in validating the appropriateness, support, and accuracy of cost estimates. We followed up on concerns identified by the contractor and presented to the (Activity Name) Commercial Activities Management Team and their support contractor. We, through the contractor, evaluated the PWS to ensure it adequately defined the workload and reviewed selected cost estimates to determine whether the estimated were compatible with the workload in the PWS. The review was predicated on the Commanding Officer's certification of the MEO. We verified that the required management study supported the MEO staffing level, but did not evaluate assumptions made in the study. We did not evaluate the adequacy of internal controls or the adequacy of accounting or computer records.

3. Our examination would not necessarily disclose all deficiencies. However, all identified deficiencies were satisfactorily resolved and included in the revised Cost Comparison Form prepared and signed on (date). Nothing came to our attention during the review that caused us to believe the accounting or computer records were inaccurate or that the cost comparison was not in compliance with OMB Circular A-76 and its revised Supplemental Handbook for those untested transactions.

4. The review certification may be invalidated by changes to the solicitation occurring after signature but prior to bid opening; therefore, please furnish copies of all subsequent modifications.

## Appendices

Subj: COMMERCIAL ACTIVITY COST COMPARISON REVIEW OF (FUNCTION) AT (LOCATION) (AUDIT NUMBER)

5. The cooperation and courtesies extended during this review are very much appreciated. If you have any questions or comments, please call us at (phone number).

(SIGNED)

Copy to:  
CNO (N465) or  
HQMC (LR)

# Appendix C

## Action Item Tracking Transmittal Form

**ITEM NUMBER:**

**INDEPENDENT REVIEW CONTRACTOR**

Team Member Name:

Date:

Deficiency / Concern Description:

**PROPOSED SOLUTION:**

**CA / MANAGEMENT TEAM**

Team Member Name:

Date:

Comments / Action:

**INDEPENDENT REVIEW CONTRACTOR**

Team Member Name:

Date:

Comments:

**INDEPENDENT REVIEW OFFICER**

Team Member Name:

Date:

Comments:

## APPENDIX D

### Checklist for In-House Cost Estimate Data Collection

- Expected contract start data and performance periods from the contracting office.
- Cost comparison title and solicitation number.
- Wage determination list for determination of those MEO positions that are comparable to those covered by the SCA or DBA.
- Current wage rate schedules and/or pay tables for APF and NAF positions, and current general schedule.
- Basis for staffing estimate including labor categories, wage rates, and hours estimated to perform the requirements of the solicitation as documentation in the event of an appeal. This also includes calculations for contract administration support of MEO subcontracts.
- Documentation from the contracting or human resource offices mapping the MEO positions not subject to EPA to the DOL wage determination list.
- Historical pay records detailing types of premium pays paid to employees.
  - Overtime
  - Hazardous Differential Pay
  - Environmental Differential Pay
  - Sunday Pay
  - Holiday Pay
  - Bonuses
  - Shift or Night Differentials
- Material and supply information for all items that will not be Government-furnished. This includes the nomenclature, unit price, total annual quantities, sources and category (GSA, local purchase, DoD Stock Fund, other).
- Capital asset depreciation information for all capital assets that will not be Government-furnished. This includes:
  - Facility source category (permanent, semi-permanent, temporary)
  - Acquisition cost
  - Replacement cost (i.e., Cost to attain a new one at time of cost comparison)

## Appendices

- Information for all capital assets that will not be Government-furnished. The following pieces of information are needed:
  - Acquisition cost
  - Acquisition date
  - Replacement cost
  - Disposal/Residual value
  - Percent of shared usage with an activity not under this cost comparison
- Rental or lease costs that are not continuing in the event of contract performance; this includes facility and equipment rental costs. Common examples are vehicle and office equipment leases.
- Maintenance and repair costs for facilities and equipment used solely by the commercial activity that is undergoing a cost comparison and that will not be Government-furnished; this also includes maintenance and repair costs for facilities and equipment that will be furnished, but where the contractor/ISSA provider will be responsible for these costs. Maintenance sub-contracts for shop and office equipment are the most common examples.
- Utility costs (i.e., fuel, electricity, telephone, water and sewerage services) for the utility services that will not be provided or reimbursed in the event of contract performance. Utility costs for facilities that are shared with an activity not within the scope of this cost comparison may be prorated based upon the estimated percentage of usage by the activity that is undergoing a cost comparison.
- Travel costs that are not continuing or that are not reimbursed in the event of contract performance for MEO positions only; do not include travel costs for inherently Governmental positions or the residual organization.
- Tuition and training costs projected for the MEO that are not continuing in the event of contract performance.
- Other costs that are not continuing in the event of contract performance; examples may include certain purchased services and MEO subcontracts.
- Capital improvement costs (e.g., costs of major overhauls and modifications that add value or prolong the life of a capital asset) for equipment and facilities that will not be Government-furnished.
- Costs for minor items that will not be Government-furnished. A minor item is a durable item with a current replacement cost of less than \$5000; common examples include overhead projectors, shop tools, and computers and peripherals. 10% of the estimated annual cost for minor items should be included in the IHCE as an estimated replacement cost for these items on an annual basis.

Contract administration costs to be incurred by the Government in assuring that a contract is faithfully executed. [Figure C8.F1.](#) specifies the allowable contract administration factor to be cost on Line 8 based.